

implemented. Because implementing an alternative must not decrease reliability under WECC/NERC operating guidelines, adopting this evaluation factor as an additional factor in this process is redundant.

Western assumes the ISO reference to Western's initial position that the decision on a post-2004 operational alternative would be based only on cost was the result of a meeting between Western and the ISO in December 2002. At the meeting, Western indicated that any decision related to its future operational configuration would have to be supported by a business case. Western did not intend by its comments that its decision on a post-2004 operational configuration would be based solely on cost.

In addition to the December 2002 meeting, Western participated with the ISO in a joint meeting with the Pacific Gas and Electric Company (PG&E), the Southern California Edison Company, and the San Diego Gas and Electric Company in February 2003. On April 8, 2003, Western met with the ISO to discuss the ISO's Metered Subsystem (MSS) proposal. At the time of these meetings, Western had not yet fully developed all of the evaluation factors it intended to use in its decision-making process.

An oral request by a representative from the LLNL to further define the criteria and to identify the weighting Western would use in making a decision was received at the July 9, 2003, Public Information Forum and considered. Western provided its definition of each criterion at the Public Information Forum and requested written comments on the definitions and the relative importance of each factor. Western did not receive any written comments on any specific modifications to the definitions and their relative importance.

Throughout the comment period, Western did not receive any adverse comments to its proposed evaluation criteria, although it received several requests to consider reliability as a separate factor. Western received many written comments supporting the criteria. Western concludes that the evaluation criteria and their respective definitions are appropriate. Therefore, the evaluation criteria are now final. This decision is based on Western's evaluation of the comments and the fact that Western did not receive a single written comment recommending any changes to the definitions of the existing factors.

The ISO and a number of other commentors expressed concerns that forming a new control area in northern

California could compromise the reliable operation of the electric power grid. Specifically, these commentors expressed reservations that under a control area option, this option could increase the complexity of operations and potentially affect reliability. Western views these two concerns as implementation issues, rather than evaluation issues associated with forming a control area, and would be ordinarily resolved as part of the WECC and NERC certification process for formation of a new control area.

#### **Implementing the Post-2004 Power Marketing Plan**

For Western to implement its post-2004 Power Marketing Plan, significant investment in new business infrastructure and systems is necessary. This new investment in business infrastructure and systems is independent of Western's selection of a post-2004 operational alternative. Since 1967, Western has operated as a separate, but integrated, subsystem of the PG&E system under the terms and conditions of Contract 14-06-200-2948A (Contract 2948A). PG&E has indicated it is unwilling to continue the terms of that contract. Western, in formulating the new marketing plan for the post-2004 period, based on PG&E's positions, assumed that Contract 2948A would expire and services such as firming energy and ancillary services previously provided by PG&E would have to be either self-provided or purchased in the market. Under Contract 2948A, PG&E provides these services and bills Western monthly. With the increased complexity of the markets and the need to schedule, account for, and settle transactions with the ISO on a 10-minute to hourly basis, Western needs to acquire replacement business systems to provide the same level of technical support for the post-2004 period now provided by PG&E.

One of the biggest changes that Western will face in implementing its post-2004 Marketing Plan is that Western and its customers will be exposed directly to real-time changes in the market. Previously, under Contract 2948A, Western and its customers settled with PG&E on a monthly after-the-fact basis. This change represents a significant departure from Western's current business practices and will require a substantial increase in work effort to implement Western's post-2004 marketing program.

Western recognized its need for new business systems and infrastructure during the development of its new marketing plan. Western embarked upon an effort to identify the

requirements to procure and install new business systems that would provide the needed tools for doing business in the business environment under the new marketing plan. The new systems needed to support the new marketing plan, regardless of which operational configuration is selected, include the Scheduling system, the Power Billing system, the Load Forecasting system, the Generation Optimization system, the Enterprise Architecture Integration system, the Meter Data Repository system, and the Settlements system.

The Scheduling system software supports two functional areas, the merchant function and the reliability function, because Western has chosen to follow the spirit and intent of the FERC Order Nos. 888 and 889, which require separation of the merchant function from the reliability function. The merchant function portion of the scheduling system enables the merchant to schedule transactions in the day-ahead markets to deliver Federal power to Project Use loads and Preference Power customers, including the necessary transmission reservations required by Western's energy deliveries and Western's transmission customers.

The reliability function portion of the system provides for real-time implementation of the day-ahead schedules and any real-time modifications to schedules required to balance the control area, sub-control area, MSS, or to accommodate schedule changes by Western's customers, including changes to transmission schedules. This new system is needed to accommodate hourly scheduling and accounting required under the new restructured energy markets, rather than the monthly scheduling and accounting previously required under the terms of Contract 2948A.

The Power Billing system allows Western to gather and process meter data and information from the Scheduling system, bill customers, and generate reports within administratively and contractually required time frames. The Power Billing system used by Western under Contract 2948A requires extensive modifications to accommodate hourly market settlements under current utility settlement standards. This major upgrade will allow Western to accurately bill and account for any of the alternatives under consideration.

The Load Forecasting system will enable Western's merchant function to forecast the load of customers who have requested portfolio management services under the Full Load Service option in the new marketing plan. As the portfolio manager for these